

LETTER FROM THE CHIEF EXECUTIVE

14 April 2020

Dear Stakeholder,

Firstly, I would like to express my sincere hope that you, your family and your colleagues are safe and well at this unprecedented time.

We are ever cognisant that our companies, and our industry, are defined by the people who work within them. The key assets within Gresham House are the people, and the effect the COVID-19 situation is potentially having on individuals and families both financially, psychologically as well as socially, is at the forefront of the senior management team's minds.

Our employees are working safely from their homes to great effect. There is no question that technology has played an invaluable part in allowing us to target 'business as usual'. In the long term, we may well see the acceleration of the structural changes that have been evolving in the workplace in recent years, with flexible working practices, constant communication and a reduced necessity to travel.

We are pleased that a month into this, it is evident that we have all the necessary systems and processes in place to maintain full client service and investment functions within Gresham House.

Notwithstanding the change in operating environment that we all faced in March, Gresham House has achieved several milestones in the month that take us further towards our strategic goals and demonstrate our resilience in the face of challenging market conditions.

The macroeconomic situation is a concern, with a substantial slowdown in growth that will almost certainly lead to an imminent recession. This will impact all corporates, and it is unclear the extent to which such a deterioration in activity will last given the unusual nature of this "enemy". The recession will be deep and, unusually, simultaneous around the globe. It will inevitably touch all parts of the Gresham House Group. However, it should be remembered that economic cycles are a normal course of events. This turn in the cycle follows the longest uninterrupted period of economic expansion in modern times. It is therefore important to recognise that whilst the catalyst for this slowdown is different, the economic effects are likely to have been seen before in economic history. What may be different, at least temporarily, is the extent of the coordinated government and central bank responses.

These are also likely to have second order implications in the future. With the risk-free rates back to almost zero globally, and liquidity being pumped into the system at a rate at least as substantial as the 2008 crisis, everything is being done to support both the macro and micro economic situations. Currently global stock markets are pricing in a rapid recovery in demand and supply, generating profitability levels similar to peak margins seen in 2019. We would argue this is too sanguine and it is likely to take longer for the real economy to recover. Typically peaks to troughs in stock markets at the turn of a cycle will take 20-30 months, and so history would suggest that with only three months or so past since the market peak, there is more volatility and valuation pain to go through, particularly as the impacts on the real economy become evident.

As you would expect, we have immediately looked at areas where discretionary spend can be curtailed, whilst maintaining the investment in resources that we had identified to support the growth requirements of our product areas.



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However, with a philosophy based on long term investment horizons, these are the periods where clear opportunities arise. At the forefront are the liquid or quoted markets, and these areas have seen marked to market declines in absolute terms but continue to outperform on a relative basis.

Good companies and management teams with liquidity issues or requiring bridge finance are now appearing, and our strategic public equity and open-ended equity funds are already making investments with the long term in mind.

There are also opportunities in private assets, which may not be conspicuous right now. The illiquidity aspects of private markets have yet to be as high profile as the dividend cuts of quoted companies, but it is only a matter of time before these issues become clearer. Our teams are identifying which smaller private companies should be supported financially or strategically, and where, as appropriate, we can offer management experience in an advisory capacity.

Real Assets at this time continue to be resilient and although shorter term issues could arise, these are long-term assets with long term investment objectives. For example, Forestry continues to see robust pricing, and we know the long-term demand for timber is clear supported by the need for new housing. Supply chain issues may well emerge more significantly as this 'lockdown' lasts, but activity in the renewables and core-plus infrastructure areas continues.

We are sensitive to Limited Partner investors at this time and it is therefore pleasing to continue to make positive progress towards a final close in the British Strategic Investment Fund before the summer. In Housing, the integration of our recent acquisition TradeRisks is progressing smoothly and the planned Shared Ownership LP is receiving positive pre-marketing feedback.

We began March by announcing our financial results for the year ending December 31, 2019. While this seems a long time ago now, this strong set of results showed the success of our business model and the strength of our balance sheet. We were also pleased to unveil GH25 - our five-year plan to target a doubling of shareholder value through AUM growth and to deliver on identified financial and strategic targets.

With organic growth at the forefront of our minds, in mid-March we raised £8.0 million through a placing, despite the turbulent market conditions and in response to evident strong and significant demand from existing and new shareholders. This capital means we enter this slowdown with a strong balance sheet and liquidity position, which will enable us to target new management contracts, product expansion and complementary acquisitions. Very shortly after the placing, we were pleased to be appointed investment manager of Strategic Equity Capital plc (SEC) working together with Aberdeen Standard Investments. SEC is a vehicle that was launched by current members of the Gresham House team in 2005 and is now respected as one of the larger 'Strategic Public Equity' vehicles quoted on the London Stock Exchange.

We look forward to growing this area of expertise within the Gresham House family and with the Board of SEC.

The ESG themes may well accelerate as asset allocation decisions by investors are reviewed in the current market conditions. We are well placed to generate both financial and non-financial returns from our product areas. Increasingly investors are recognising it is not necessary to trade off one against the other, as they target a 'double bottom line' return.

We now look forward to our AGM, which is scheduled for 15 May 2020 and details of this are included with this letter. We remain committed to an open dialogue with our shareholders and also plan to host a presentation at a later date to our broader community of shareholders and potential investors, possibly through a webinar should circumstances dictate. Further details of this will be shared in due course.



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This will be an opportunity to hear more about GH25 and our plans for the year ahead, as well as to ask questions about our strategy and operations, alongside the progress we have made in growing both organically and integrating acquisitions over the past year. We continue to use communication channels including social media, email and the website.

This is undoubtedly a challenging time for everyone, and the final implications are far from clear. However, as we enter this valley, it is important to look over to the other side and recognise both that we will get there and that how we behave now will define the next stage. At Gresham House we continue to maintain our integrity and to champion our values of collaboration, empowerment, ambition, dynamism and meritocracy. These are precisely the values we all need during this time.

Our senior management team is available at any stage should you have any questions you would like to discuss.

May I wish you, your colleagues and your family good health and good luck at this time.

Best regards,

Tony Dalwood

CEO, Gresham House plc